

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0608-03
Bill No.: Perfected SS for SB 22
Subject: Appropriations; Crimes and Punishment; Environmental Protection; Housing;
 Natural Resources Department; Property, Real and Personal; Waste - Hazardous;
 Waste - Radioactive; Waste - Solid
Type: Original
Date: March 29, 2017

Bill Summary: This proposal modifies provisions relating to contaminated homes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(Up to \$12,682,726)	(Up to \$125,000)	(Up to \$125,000)
Total Estimated Net Effect on General Revenue	(Up to \$12,682,726)	(Up to \$125,000)	(Up to \$125,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Missouri Contaminated Home Acquisition Program Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Transfer In and Costs Net to Zero
 Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Local Government	\$0	(Up to \$122,075)	(Up to \$122,075)

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

In response to a previous version of this proposal (0608-01), officials from the **Department of Natural Resources (DNR)** stated the following:

At a minimum, a new program of this scope would require resources with specific real estate expertise for reviewing and approving/denying applications, participating in court challenges related to determinations and processing payments to eligible homeowners as well as acquiring contractual services from real estate appraisers.

The Department consulted with a local real estate attorney, in regards to the following estimates.

Average transaction costs associated with each property transaction:

• Appraisal =	\$500.00
• Title insurance =	\$450.00
• Property taxes* =	\$0.00
• Closing costs =	\$300.00
• Deed preparation =	\$75.00
• Recording fee =	\$30.00
Total cost per transaction =	\$1,355.00

*Since the State would not assume the pro-rated property taxes, the seller might have some impact.

For purposes of this fiscal note, the department focused on the homes within the Spanish Village Subdivision (approximately 91 single family homes). The estimated transaction costs, if all property homeowners were to take advantage of the program would be \$123,305 (91 x \$1,355).

If we assume that approximately 10% of homeowners would challenge the appraisal and that litigation costs associated with each challenge would be approximately \$15,000, the department would estimate a litigation cost of approximately \$136,500 for the homes within the subdivision.

Based on the broad scope of the proposed language it is not possible to estimate the level of participation in such a program. Therefore, the exact cost to the department for implementing such a program is indeterminable.

ASSUMPTION (continued)

For purposes of this fiscal note, the department has reflected a fiscal impact range of 0% - 100% participation.

100% participation:

Homes within Spanish Village Subdivision (91 homes)

Home value \$12,500,000 + Real Estate Transaction Costs \$123,305 + litigation costs \$136,500 = \$12,759,805

ITSD FY17 Costs = \$57,726

Fiscal Impact Range: \$0 - \$12,817,531 (\$12,759,805 + \$57,726)

In response to a previous version of this proposal (0608-01), officials at the **Office of Administration - Facilities Management, Design and Construction** deferred to Department of Natural Resources for fiscal impact.

In response to SB 600 from the 2016 session, officials at the **Office of Administration - Facilities Management, Design and Construction (OA-FMDC)** assumed the proposal would have a negative fiscal impact on their organization.

Estimating the number of properties that would be acquired is nearly impossible. OA-FMDC assumes annual maintenance and upkeep costs would amount to one percent of the purchase price of the acquired properties. However, other factors would affect regular maintenance costs like age of home, condition of the home, location, and weather, which could result in long-term capital improvement costs.

If it is determined that the properties should be sold, OA-FMDC would need to obtain the services of a commercial real estate services company to handle this large number of properties.

Oversight will show an impact \$0 or up to \$125,000 per year based on \$12.5 million total purchase price of homes multiplied by 1% estimate for maintenance costs to OA-FMDC.

Officials at the **Office of Prosecution Services** assume this proposal would not have a fiscal impact on their organization. However in response to a previous version of this proposal (0608-01), noted that the creation of a new crime creates additional responsibilities for county prosecutors which may in turn result in additional costs which are difficult to determine.

Officials at the **Office of State Courts Administrator** assume this proposal would not have a fiscal impact on their organization.

ASSUMPTION (continued)

In response to a previous version of this proposal (0608-01), officials at the **Department of Corrections, Missouri Tax Commission, Department of Health and Senior Services, Office of Administration - Information Technology Services Division, Department of Public Safety - Highway Patrol, and Department of Revenue** each assumed the proposal would not have a fiscal impact on their respective organizations.

Oversight assumes if the State becomes owners of the property estimated by DNR, future property taxes will not be collected for the property. Using DNR's estimate of \$12.5 million as the market value of impacted properties, Oversight assumes the reduction in property tax collections to the Blind Pension Trust Fund will be minimal, as indicated below, and will not show an impact to that fund. Oversight will show an impact to local political subdivisions (schools, cities, counties, libraries, fire protection districts, etc.) up to \$122,075 in property tax collections.

Estimated True Value of Residences:	\$12,500,000
Residential value multiplier	<u>19%</u>
Estimated assessed value	\$2,375,000

Blind Pension Fund Tax Rate	<u>\$0.03 per \$100</u>
Impact to Blind Trust Fund	\$ 713

Average local tax rate	<u>\$5.14 per \$100</u>
Impact to local political subdivisions	\$ 122,075

Oversight assumes the purchase of such a large volume of properties impacted by this proposal could take many years; however, for simplicity, we are showing the impact as if it would occur in a single fiscal year, FY 2018.

Oversight will assume that the limit of \$12,500,000 placed on the program in §260.865.5 will be utilized to cover the purchase price of the property plus transaction costs plus purchase price litigation. Therefore, Oversight will reflect a cost of \$12.5 million to the General Revenue Fund to administer the program. Oversight will also reflect the anticipated ITSD costs for DNR.

As the sale of said properties is optional to the owners, **Oversight** will range the fiscal impact as "Up to" the \$12,500,000 program limit.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
<u>Transfer Out</u> - to Missouri Contaminated Home Acquisition Program Fund	(Up to \$12,500,000)	\$0	\$0
<u>Costs</u> - OA ITSD - Computer Programing	(\$57,726)	\$0	\$0
Costs - OA - FMDC - Annual Maintenance and Up Keep of Property - approximately 91 homes	<u>(Up to \$125,000)</u>	<u>(Up to \$125,000)</u>	<u>(Up to \$125,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Up to \$12,682,726)</u>	<u>(Up to \$125,000)</u>	<u>(Up to \$125,000)</u>
 MISSOURI CONTAMINATED HOME ACQUISITION PROGRAM FUND			
<u>Transferred In</u> - Home Acquisition Costs from General Revenue	Up to <u>\$12,500,000</u>	<u>\$0</u>	<u>\$0</u>
<u>Costs</u> - of the program, including litigation costs regarding the value of the house, real estate transaction fees, and the purchase of homes	(Up to <u>\$12,500,000)</u>	<u>\$0</u>	<u>\$0</u>
NET ESTIMATED EFFECT TO MISSOURI CONTAMINATED HOME ACQUISITION PROGRAM FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss</u> - state-purchased properties not obligated to pay property taxes	<u>\$0</u>	(Up to <u>\$122,075</u>)	(Up to <u>\$122,075</u>)
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>\$0</u>	(Up to <u>\$122,075</u>)	(Up to <u>\$122,075</u>)

FISCAL IMPACT - Small Business

This proposal would have a negative fiscal impact on small businesses within the area of the program.

FISCAL DESCRIPTION

MISSOURI CONTAMINATED HOME ACQUISITION PROGRAM (Sections 260.850 - 260.865) - This act creates the Missouri Contaminated Home Acquisition Program. Under this program, any homeowner whose home is determined by a governmental health or environmental agency to be uninhabitable due to contamination, or whose home is located within 3 miles from a location with certain levels of dissolved radium in groundwater, may apply to sell their home for fair market value to the Department of Natural Resources. Application criteria and time line requirements for application decisions from the Department of Natural Resources are set forth in this act. In addition, this act sets forth an order of priority that the Department of Natural Resources shall follow when purchasing homes. Funding for the program will be subject to appropriation to the Missouri Contaminated Home Acquisition Program Fund.

Under this act, if the Department of Natural Resources and the homeowner disagree with the homeowners's appraisal of fair market value of the home, the Department shall also perform an appraisal on the home. Concurrently, the Department and homeowner shall mutually agree upon an appraiser to perform a third appraisal. The fair market value of the home shall be determined by averaging the fair market value of all three appraisals. In the event that a party is dissatisfied by the averaged fair market value, they may seek expedited review in any court of competent jurisdiction.

Under this act, the Missouri Contaminated Home Acquisition Program costs shall not exceed \$12.5 million.

FISCAL DESCRIPTION (continued)

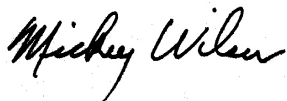
RADIOACTIVE MATERIAL DISCLOSURE (Section 441.236) - Under this act, any seller or renter of a premises that was contaminated with radioactive material, who knows that such premises was contaminated with radioactive material, is required to disclose such radioactive contamination to any buyer or lessee in writing. Any person failing to make such a disclosure shall be guilty of a Class A misdemeanor.

This act contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Natural Resources
Office of Administration - Facilities Management, Design and Construction
St. Louis County
Office of Prosecution Services
Department of Corrections
Office of State Courts Administrator
Missouri Tax Commission
Department of Health and Senior Services
Office of Administration - Information Technology Services Division
Department of Public Safety - Highway Patrol
Department of Revenue



Mickey Wilson, CPA
Director
March 29, 2017

Ross Strope
Assistant Director
March 29, 2017